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SECRET

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CONTENTS

USSR-YUGOSLAVIA: Grechko visit could complicate relations. (Page 1)

NORTH KOREA - US: Pyongyang attempts to use Shanghai communiqué to raise possibility for improved relations. (Page 2)

NATIONALIST CHINA - COMMUNIST COUNTRIES: Taipei expresses interest in contacts with Communist countries. (Page 3)

25X6

JAPAN: Attempt to reduce visibility of foreign exchange reserves. (Page 5)

25X1

TUNISIA: Effort to solve problem of succession. (Page 8)

BELGIUM-ZAIRE: Belgian economic assistance. (Page 9)

FRANCE - WEST GERMANY: Paris prepared to help with ratification of Eastern treaties (Page 10)

SECRET

USSR-YUGOSLAVIA: The oft-delayed visit to Yugoslavia of Soviet Defense Minister Grechko is expected later this month and could complicate relations between the two countries.

The Yugoslavs are apprehensive that Grechko will revive contentious bilateral issues, such as proposals for Soviet use of Yugoslav naval facilities and additional over-flight rights for Soviet aircraft en route to the Middle East. Moreover, the Yugoslavs fear that Grechko might embarrass them in Belgrade by associating Soviet attacks upon US naval home porting in Greece with their own objections to this project.

Grechko is unlikely to take too aggressive a stance, however, for fear of upsetting top-level Soviet efforts to improve relations with Yugoslavia. Moscow reportedly has been pressing President Tito to reciprocate First Secretary Brezhnev's trip to Belgrade last September by visiting the USSR in April or May.

The Yugoslav media have voiced displeasure over Soviet statements aimed at tightening Moscow's ideological grip on Eastern Europe, and Tito is unlikely to visit Moscow under a cloud of mutual suspicion. Tito is not eager to travel to the Soviet Union in any event and probably would seize upon any high-handed intervention by Grechko as a pretext for postponing such a trip.

25X1

SECRET

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NORTH KOREA - US: Pyongyang is attempting to use the Shanghai communique to raise the possibility of an improvement in its relations with the US.

In a commentary on the Sino-US talks on 4 March, Pyongyang stated that US acceptance of Peking's five principles of peaceful coexistence should logically lead to a withdrawal of American troops from South Korea. Taking that point a step further, a semi-official North Korean spokesman in Japan told a US newsman on 7 March that, in light of the recent developments in Sino-US affairs, the time had come to begin normalizing US relations with North Korea. The spokesman stated that a US withdrawal of forces need not precede expanded contacts, but he implied that a meaningful improvement in relations would be tied to an eventual pullout.

Pyongyang's new gesture is clearly designed to elicit US support for its ostensibly more reasonable and flexible position, which it has carefully built up over the past several months, on dealing with the South. The North Koreans may calculate that US willingness to lower barriers with Peking indicates a greater possibility of direct dealings with the US.

Pyongyang may in fact already be testing the US attitude on trade matters. According to a report from the US consulate in Munich, North Korea has asked a German firm to purchase an American-made instrument that currently is on COCOM's proscribed trading list. Pyongyang reportedly has insisted that the instrument be American-made despite the fact that it is available from European manufacturers.

Regardless of the response from the US, Pyongyang's overtures will create further uneasiness in Seoul.

25X1

8 Mar 72

Central Intelligence Bulletin

2

SECRET

SECRET

NATIONALIST CHINA - COMMUNIST COUNTRIES: Taipei is attempting to throw an anchor to windward by suggesting that it is prepared to encourage political and economic contacts with the USSR and East European countries.

The Nationalist foreign minister stated publicly yesterday that his government is interested in contacts with Communist nations "if they are not puppets of Communist China," hinting at the same time that Taipei would not be averse to eventual establishment of diplomatic relations with such states. On 5 March, the government also announced that it would consider allowing foreign companies in Taiwan to export to the USSR and Eastern Europe, at first probably through third parties, and that Taipei would continue to relax restrictions on imports from these countries.

These policies are in line with Taipei's efforts since its ouster from the UN to prevent Taiwan's economic and political isolation, despite the erosion of diplomatic support. Since last October, Taipei has acted to assure the continued availability of foreign capital and access to overseas markets. A trade offensive has been under way for several months to boost sales to Europe, Africa, Latin America, and East Asia, and Taipei is permitting trade with countries that recognize Peking. This policy would now be expanded into Eastern Europe. At the same time the Nationalists have attempted to maintain semi-official missions in countries that have formal diplomatic ties with the mainland.

Politically, the announcements are designed to suggest that Taipei, in the wake of the Sino-US communiqué, has not been "boxed in," and that the Nationalist government, like its rival in Peking, can conduct diplomacy on the basis that "the enemy of my enemy is my friend." Moscow and its East European clients will probably cautiously welcome Nationalist overtures because this will upset Peking, but diplomatic relations are out of the question because that would involve a formal break with the Chinese Communists.

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SECRET

JAPAN: Tokyo's current plan to buy foreign bonds appears designed in part to reduce the visibility of its burgeoning foreign exchange reserves.

The government will use part of its foreign reserve holdings, which now total \$16.5 billion, to buy medium- and long-term foreign government bonds. During 1970-71, Japan moved to reduce foreign exchange reserves by lending \$400 million to the World Bank. The planned shift out of short-term currency holdings will give the appearance of further reducing foreign reserves as defined by the International Monetary Fund. At the same time, Japan will increase its earnings. Short-term securities are yielding the Japanese only 4.6 percent, whereas the foreign medium- and long-term bonds will yield approximately six percent.

Holdings of foreign exchange will be further masked by increased deposits with Japanese commercial banks to allow repayment of short-term trade debts to the US. Although the initial deposit under this scheme was for only \$200 million, some bankers predict a rise to \$2.5-\$3.5 billion.

25X1



25X1

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Next 1 Page(s) In Document Exempt

SECRET

TUNISIA: President Bourguiba is establishing a vice-presidency in an effort to solve the long-standing controversy over the problem of choosing his successor.

The political bureau of the ruling Destourian Socialist Party on 5 March unanimously endorsed a proposal, presumably introduced by Bourguiba, to create the post of vice-president whose term of office would coincide with that of the president. This proposal, in the form of a constitutional amendment, will now be submitted to the National Assembly, which may act in time for a vice-president to be elected this fall. The new official probably will be given major responsibilities, such as serving as prime minister, presiding over the National Assembly, or holding a specific governmental portfolio, in order to assure that the position is a meaningful one.

As the constitution now stands, the prime minister succeeds in the event that the president dies, resigns, or becomes incompetent. Bourguiba first broached the possibility of a vice-president nearly two years ago when the succession problem became a pressing issue. The proposal was explored, but rejected, by the party's High Commission, created at that time to study and draft proposed constitutional amendments. The consensus of the recent party congress was that, in the event of a presidential vacancy, his successor should be directly elected. Bourguiba subsequently brushed aside the congress' decision by announcing that he would be succeeded by Prime Minister Hedi Nouira. The vice-presidential proposal apparently is being revived now in an effort to heal the rift within the party, but some party liberals may be tempted to challenge this decision on the grounds that it still does not conform to the decision of the party congress.

At this time Nouira remains the most likely candidate for election to the vice-presidency, as Bourguiba has repeatedly expressed confidence in him.

25X1

8 Mar 72

Central Intelligence Bulletin

8

SECRET

BELGIUM-ZAIRE: Several agreements concluded during the Belgian foreign minister's recent visit to Zaire will provide timely assistance for Kinshasa's economic development program, which currently is operating under severe financial strain.

The agreements, which include \$25 million in assistance and liberalized credit terms for capital equipment, constitute one of the largest single aid packages extended to Zaire since independence in 1960. A significant provision is a \$7.5-million line of credit for the national development bank which will enhance its ability to finance local projects.

Other agreements permit a greater role for private Belgian investors in the Zairian economy and increased Belgian government funds for developing Zaire's antiquated transportation system, a major obstacle to more rapid economic progress. Brussels also agreed to regular consultations at the foreign ministers' level to avoid future communications breakdowns, which contributed heavily to previous crises between the two governments.

25X1

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NOTE

FRANCE - WEST GERMANY: Paris, fearful that the West German Bundestag may fail to ratify the treaties with the USSR and Poland, is prepared to try to muster support for the treaties from the opposition Christian Democrats (CDU). The French have close ties with a number of top CDU leaders, nourished from the time of the De Gaulle-Adenauer rapprochement in 1963. French officials are impressed by reports that the political atmosphere in Bonn is "hesitant" and "gloomy" following the first readings of the treaties and are telling US diplomats that a failure to ratify the treaties would be "bad for Europe and bad for the world." Paris is aware that its own efforts to promote de-tente will suffer if the Bundestag rejects the treaties.

25X1
25X1

8 Mar 72

Central Intelligence Bulletin

10

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